



## CONGRESSIONAL BUDGET OFFICE PAY-AS-YOU-GO ESTIMATE

October 19, 1998

### **H.R. 2675** **Federal Employees Life Insurance Improvement Act**

*As cleared by the Congress on October 8, 1998*

#### **SUMMARY**

H.R. 2675 makes a number of changes to the Federal Employees' Group Life Insurance (FEGLI) program. The act allows retired federal employees who carry additional optional life insurance or optional life insurance on family members to continue paying premiums after turning 65 and avoid having their coverage phased out. H.R. 2675 also increases the amount of optional life insurance that employees may purchase on family members and allows separated federal employees to continue purchasing additional optional life insurance at group rates.

CBO estimates that this legislation reduces direct spending by \$69 million over the 1999-2003 period. Direct spending decreases because additional FEGLI premiums will be larger than additional claims over this period. CBO estimates that employee premium payments to FEGLI, which are treated as offsetting collections, will rise by \$292 million over the 1999-2003 period and premium payments will increase by \$223 million.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of H.R. 2675 is shown in Table 1. The costs of this legislation fall within budget function 600 (Income Security). For purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the succeeding four years are counted.

TABLE 1. SUMMARY OF PAY-AS-YOU-GO EFFECTS OF H.R. 2675

	By Fiscal Year, in Millions of Dollars									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Change in outlays	-7	-11	-12	-17	-21	-22	-22	-22	-20	-17
Change in receipts	Not applicable									

## BASIS OF ESTIMATE

The impact of H.R. 2675 on direct spending is shown in Table 2.

TABLE 2. ESTIMATED IMPACT OF H.R. 2675 ON DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Increased FEGLI Premiums	-8	-40	-68	-81	-95	-113	-133	-156	-181	-209
Increased FEGLI Claims	<u>1</u>	<u>29</u>	<u>56</u>	<u>64</u>	<u>73</u>	<u>90</u>	<u>111</u>	<u>134</u>	<u>161</u>	<u>192</u>
Total	-7	-11	-12	-17	-21	-22	-22	-22	-20	-17

Federal employees may supplement their basic FEGLI life insurance with three forms of optional insurance. Option A allows employees to buy \$10,000 of additional life insurance as well as additional accidental death and dismemberment insurance. Under Option B, federal employees may buy additional life insurance worth 1, 2, 3, 4, or 5 times their annual basic pay. Under prior law for Option C, employees could purchase life insurance for their family members at the fixed amounts of \$5,000 for a spouse and \$2,500 for each dependent child.

Unlike basic FEGLI life insurance, which requires a matching employer contribution, employees pay the full cost of any optional FEGLI insurance. If an employee has Option B or C coverage for the entire five years prior to retiring or receiving workers' compensation, he or she may keep the additional insurance after retirement. However, under prior law, the

retiree could not pay premiums after reaching age 65, and the amount of coverage decreased by 2 percentage points a month over 50 months until no coverage remained. Employees who were ineligible to continue their FEGLI coverage after leaving government service had to convert their coverage to an individual policy.

H.R. 2675 amends Options B and C in three ways. First, employees who continue their Option B or C coverage during retirement will be able to continue paying premiums after age 65 and avoid having the coverage phased out. Second, employees will be allowed to select Option C coverage worth 1, 2, 3, 4, or 5 times the old \$5,000 and \$2,500 amounts. These changes take effect 180 days after enactment and, with one exception, apply only to current and future employees. The act allows retired employees who are still enrolled in Option B to maintain their existing Option B coverage.

Finally, H.R. 2675 makes FEGLI benefits more portable by allowing federal employees who separate from service and would have been ineligible to stay in FEGLI under prior law to continue their Option B coverage at group rates. This provision becomes effective 180 days after enactment and will be in effect only for the following three years. After that, coverage for the separated employees still enrolled in Option B will end, and those employees will have to convert their coverage to individual policies. The act also requires the Office of Personnel Management (OPM) to recommend within three years of enactment whether this insurance should be extended, made permanent, or terminated.

### **Increased FEGLI Premium Payments**

A significant number of current and retired federal workers have Option B or C coverage. Approximately 126,000 retirees carry Option B coverage, and 1 million workers and 314,000 retirees have Option C coverage. CBO used data from OPM to project the number of people who would enroll in Options B and C coverage over the next 10 years. These projections included the number of retirees with Option B or C coverage, the number of retirees over age 65, and the average amount of coverage.

CBO assumes that enrollees in Option C will increase their coverage to an average of 3 times the current level. For employees enrolled in Option C, this amount is the midpoint of the new coverage amounts that will be available. Under old law, employees paid a fixed premium for Option C coverage, and OPM has indicated that Option C premiums will increase to reflect the rise in available coverage envisioned under H.R. 2675. CBO assumes that premiums for Option C will rise in proportion to the amount of coverage selected. For example, an employee who pays \$18.20 for \$5,000 of coverage for their spouse will pay

\$54.60 for \$15,000 of coverage. Finally, CBO assumes that half of the retirees with Option B or C coverage will decide to keep their coverage after turning 65.

For the act's portability provisions for Option B coverage, CBO assumes that about 120,000 employees will separate from federal service annually, and that about 43 percent of them will be enrolled in Option B, which is the participation rate for all federal employees. Based on information from the Employee Benefit Research Institute, about 75 percent of private-sector employees participate in employer-provided life insurance. CBO assumes that 75 percent of the employees separating from federal service will get life insurance through their new employer, and that two-thirds of the remaining 25 percent will stay enrolled in Option B.

Based on these assumptions, CBO estimates that premium payments from retirees with Option B coverage will increase by \$183 million over the 1999-2003 period. Premiums from current employees and retirees with Option C coverage will rise by \$84 million and \$14 million, respectively. Premiums from separated employees who continue their Option B coverage will be \$11 million.

### **Increased FEGLI Claims Payments**

Because federal employees and retirees will purchase more FEGLI coverage, payments of claims will increase under H.R. 2675. Using data from OPM, CBO estimated the number of claims that will be made under Options B and C and the average amount of each claim. Separate projections were made for current employees, separated employees, and retirees.

Claims payments to retirees with Option B coverage will rise by \$108 million during the 1999-2003 period as some retirees keep their coverage past age 65. CBO estimates that claims for separated employees in Option B will be \$14 million. Claims payments for current employees enrolled in Option C will increase by \$95 million, while claims for retirees with Option C will increase by \$6 million.

### **Other Provisions**

H.R. 2675 contains a number of other provisions that CBO estimates will not have a significant budgetary impact. These provisions include requiring OPM to conduct a study on expanding the types of insurance available under FEGLI, including foster children under the FEGLI definition of "family member," and allowing FEGLI enrollees to pay their premiums directly if their pay or annuity is too small to pay premiums through withholding.

The act will also lengthen the time that a federal employee has to seek judicial review of a decision of the Merit Systems Protection Board from 30 days to 60 days.

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